PRESS MEMO

May 7th, 1963

FROM THE INFORMATION OFFICE
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GERALD WRIGHT DIRECTOR

METROPOLITAN YMCA
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Mike - Donagan

Professor Arthur Lermer will meet with the Press to discuss matters pertinent to Canadian economic affairs arising out of the VI International Congress of Economists which he attended in Rome recently.

PRESS INTERVIEW OPPORTUNITY

FACULTY LOUNGE
5TH FLOOR - S. G. W. U.
1435 DRUMMOND STREET
FRIDAY, MAY 10TH, 3:00 P.M.

Professor Arthur Lermer returned Monday from Rome, having attended the conference of the Sixth International Congress of Economists on national economic growth. The Congress was held in Rome, April 8th to 11th, followed by a seminar on investment policy of public enterprises which was attended by top economists from Europe, the Americas, and Asia. The Congress concentrated on problems of economic planning within the democratic political framework.

Professor Lermer spent nearly a month visiting the main centres of planning in Western Europe, including Rome, Paris, Brussels, Stockholm, Oslo, The Hague, as well as the headquarters of European economic community.

Professor Lermer's tour as official delegate of the Canadian Political Science Association was made possible by a grant from the Canada Council and Sir George Williams University. Prof. Lermer is Chairman of the Department of Economics at SGWU.

Professor Arthur LERMER Canada Nr. 45

Mr. Chairman, Ladies and Gentlemen,

Permit me first of all to express my deep appreciation for the opportunity to participate in your Congress deliberations. Both the high academic standards as well as the profound zeal with which you have searched for an effective adaptation to new economic conditions of modern world is most impressive.

Canada is now facing very serious problems of economic development. To many new admirable economic contributions which Western and Central Europe have made recently, one should count your remarkable spirit and commitment to promote maximum economic welfare.

We certainly can learn a great deal from your thought and experience and it is precisely with such conviction that I will report to the Canadian Political Science Association, the officially recognized representative organization of Canadian social scientists, whose delegate I am here. My trip here has been made possible by the Canadian Council.

And now I shall make a few marginal remarks on the paper of the eminent Professor Tinbergen.

May I paraphraze a warning once casted by a Chairman of a meeting of American Economic Historians when introducing Professor Schumpeter, he said: "so charming and consistent is the speaker that I must warn you against being carried away by him. Please do watch for the loopholes." One is certainly faced with an identical situation for

Professor Tinbergen's paper is as expected of the same nature as described above. More so because I find myself in full agreement with the tenor and conclusions of his paper, looking for loopholes is certainly not easy.

Professor Tinbergen realizes that the relationships between the private and public sector and the role of planning depend on a fuller understanding of the nature and conduct of basic institutions participating and often determining the parameters of the Welfare function.

Traditional Welfare Economics by virtue of its very nature as an outgrowth of microeconomic equilibrium analysis has not supplied him with a lead to group behaviour which, as he states: "the central problem of this branch of economic science is to find the set of institutions which as a group are able to satisfy the conditions for maximum welfare of the community." (page 9, Annals of Collective Economy, Vol. XXXIV, No 1 Jan-March 1963).

To reconcile an institutional policy with "planning for an optimum rate of economic growth" is tantemount to the "maximization of economical welfare", in an advanced economy, even in the short run. I stress advanced economy for in an underdeveloped economy identity between both in the short run would be very rare indeed.

Professor Tinbergen proceeds then with naming group relationship as characterised mostly by conflict, although Cultural, Educational, Health and other Institutions codetermining the welfare function may be devoid of built-in conflicts in their relationships with other groups. Such conflicts as I see it, may

(1) either not be resolved at all as in the Marxian System,

in which case social explosion must ultimately set in,

(2) or be regulated by "countervailing power" of the Galbraith model, in which case only a precarious highly unstable balance may be achieved, a modus vivendi which does not require basic reconciliation, or social consideration, but rests on the dynamics of an explicit or bargaining process.

(3) The enlighted social conscious balance of Inter-Institutional power which rests on maximum possible information and a desire to test demands by "higher" aims such as the well being of the nation as a whole, or future generations to improve industrial relation, or for that matter ideally for mankind as a whole.

Historically the horizon of loyalty has widened and could thus be spurred in that direction particularly since in the long run the results are bound to reflect positively on the interests of the temporary allegedly "sacrificing" group.

The third category of intra-group relationship seems to be the choice for Professor Tinbergen's model.

Conflicts may still not be fully resolved, it should be possible however and I quote "to narrow the range of conflict". (p. 91 ibidem) The "narrowing of conflict" can obviously not be a spontaneous process. It requires conscious efforts. The democratic system provides quite an effective instrument, so does the market to some extent. However the former often breaks down (a) because of its own deficiencies, (b) because a great deal of power is vested in the hands of the winning party, which may be looking for spoils. The latter is of course imperfect

due to rigidities, inelasticities etc., so obvious are these negative characteristics to economists that it would be superfluous even to numerate, let alone to analyze them.

Groups or institutions must therefore face each other at the direct or indirect bargaining table (visible or invisible). Who is to assist those groups in securing objective data and wise, expert services? Tinbergen turns to the economist as the supplier of that crucial and indispensable function in a mixed, multiple exchange system (the Market, Public services, Cooper etc. and numerous Institutions, short in a most heterogeneous). The economist can perform this function besides assisting the nation as a whole, by drawing lines of demarcation between private and public enterprises and aid through proper planning (clinique, etc.)

Professor Tinbergen very clearly distinguishes between the private sector which may show two characteristics:

(a) marginal costs equal to or higher than average costs

(b) absense of external effects (p. 101 ibidem)

and the public sector with

(a) marginal costs lower than average costs; or

(b) presence of external effects (p. 102 ibidem).

To strengthen his case Professor Tinbergen proceeds then with the enumeration of an impressive array of industries suited for the public sector.

The expert economists should even participate with voting power on the decision making. Where shall he obtain his guide line, his measuring rod?

As to Welfare Economics, Professor Tinbergen is quite aware of limitations. He therefore proposes to include in the Welfare Function:

(1) Social Welfare. By social welfare he means "the ratios between such individual elements for the person considered and the same elements for other persons, as well as the relation in which an individual stands to other individuals" (p. 91 ibidem).

(2) Elements of freedom

(3) Cultural values as non material values

(4) Individual material values such as "the value of consumption and the productive efforts" (p. 91 ibid.)

(5) "The optimum economic order" (p. 98 ibid.)

(6) Group behaviour to "satisfy the optimum conditions". Professor Tinbergen stresses the latter by stating "that is the conditions for maximum social welfare" (p. 98 ibidem)

(7) The costs and inconveniences of the tax system

(8) The costs and advantages of the educational system

(9) The degree of decentralisation of decisions

(10) The inconveniences created by some market systems

(11) The general political system

(12) Health institutions

And last but not least:

(13) Redistribution of income.

Professor Tinbergen calls them means at the disposal of an economic system, but means must become ingredients, components of a comprehensive,

broad welfare function as conceived by Professor Tinbergen. Surely the scope of Professor Tinbergen's function inflicts a mortal blow to the extreme critics of Welfare Economics (Little etc.). One can fully sympathise with Professor Tinbergen as far as the need for such a function as a "measuring rod", a point of departure, "a first approximation" for the highly charged "wise" man, the economist.

The construction of an effective successful plan requires such a powerful lever, but is it feasible? One would like to believe so. Professor Tinbergen has unfortunately not proven the above in his paper. Neither has he resolved the problem as to what would happen if there will be a difference of opinion between the economic experts. Would not "the Arrow paradox" apply to them as well? How would groups of the powerful experts behave in society? He did not come to grips with these crucial problems. Do we know enough about institutional behaviour in a dynamic society in order to account for it in the Welfare function? Economists have too long delegated the responsibility to other social scientists confining their interests to "pure" economics.

Just as these economists who became involved in aiding, advising and studying underdeveloped countries were frustrated by this comfortable neo-classical division of isolated dimensions, so must economists, preoccupied with problems of economic planning, criss cross and trespass rigid interdisciplinary boundary lines. It is true they will feel rather lost beyond their own border lines but at least they should be able to pose pertinent questions and be closely associated with other disciplines on common projects. I would like to hope that

Professor Tinbergen's paper signalizes further studies conducted by him along the lines formulated by him. My feeling is that Professor Tinbergen's paper constitutes a most challenging breakthrough into a much broader socioeconomic welfare theory.

Economic Planning seems to revive the very concept of Political Economy par excellence. Let us not prematurely take the easy way out and behave like in the anecdote definition of a generalization: "A generalization is the plateau on which the tired mind of a scientist likes to rest."